

OFFICE OF POLICE AND CRIME COMMISSIONER

OFFICE OF THE CHIEF CONSTABLE

TITLE: Medium Term Financial Projections 2018/19 to 2022/23

DATE: 14th September 2017

TIMING: Routine

PURPOSE: For Consideration

1.	<u>RECOMMENDATION</u>
1.1	<p>That the Police and Crime Commissioner for Gwent (Commissioner) considers the updated Medium Term Financial Projections (MTFP) to 2022/23 in order to:</p> <ul style="list-style-type: none">a) Continue the delivery of his Police and Crime Plan;b) Highlight the funding impact of on-going national austerity measures;c) Provide early consideration to his precept strategy;d) Identify the emerging in-service cost pressures and developments;e) Consider the Staying Ahead Programme of work and identified schemes to address future funding deficits; andf) Seek opportunities to reinvest into front-line service delivery.
1.2	<p>Moving forward, the Commissioner will also need to review the overall levels of reserves and committed funds held and also the future capital programme and its funding requirements as part of his consideration for setting the 2018/19 budget. This review forms part of the Reserves and Committed Funds Strategy which is subject to a separate report which will be presented to the Joint Audit Committee (JAC) in September 2017 and the Police and Crime Panel (PCP) in December 2017.</p>
2.	<u>INTRODUCTION & BACKGROUND</u>
2.1	<p>In order to set the financial strategy in support of the Commissioner's Police and Crime Plan, an updated MTFP is produced on at least a quarterly basis to reflect the best estimates of the future financial landscape of delivering police and crime services within Gwent. With the commencement of the formal annual budget setting exercise in September each year, the updating of the MTFP then becomes at least a monthly exercise, up until the confirmation of the budget proposal by the Commissioner (and endorsement of the precept by</p>

2.2	<p>the Police and Crime Panel), in January/February each year.</p> <p>The MTFP appended to this report is the second update following the agreement of the 2017/18 budget in February 2017. With the movement into the new financial year (2017/18), the Commissioner will note that this latest MTFP now projects to 2022/23 – the convention being that any given MTFP forecasts 5 years beyond the current financial year.</p>
3.	<p><u>ISSUES FOR CONSIDERATION</u></p> <p>3.1 The 2017/18 budget setting round was the second year of the 2015 Comprehensive Spending Review (CSR) which, in common with the preceding 2010 and 2013 CSR periods, has required the delivery of significant financial efficiencies and budget reductions. It is anticipated that this theme will continue for the life of this Parliament through subsequent CSRs, although it is acknowledged that the recent terrorist attacks in Westminster, Manchester Arena, Borough Market and Finsbury Park may influence the degree of further austerity measures placed upon policing budgets. The Staying Ahead Programme was initiated to address these efficiency requirements and to the end of 2016/17, has delivered cumulative recurring savings of £42.069m. The 2017/18 savings target of a further £7.480m is expected to be delivered this year due to the continuing success of the Staying Ahead Programme.</p> <p>3.2 Complimentary to the current CSR, in the 2016 Budget, Her Majesty's Treasury (HMT) announced its Efficiency Review. The Review will take a strategic look at how Government delivers services across the whole public sector, looking for opportunities to make improvements and drive value for money. The Review will generate £3.5 billion of savings in 2019/20, with up to £1 billion to be reinvested in priority areas. Government Departments have therefore been commissioned to draw up proposals for contributions by modelling scenarios of 3% and 6% savings.</p> <p>3.3 The future financial challenge to 2022/23 is exacerbated by the Home Office's (HO) review of the Police Funding Formula. By way of background, once the overall size of the policing budget is determined by the HO (via the CSR), then the amount of funding provided to respective Commissioners is determined by the Police Funding Formula. Although the review is currently 'on hold', pending Ministerial consideration of the work of both the Technical Reference Group and Senior Sector Group, the potential financial impact cannot be discounted at this stage. The estimated financial impact remains the same as during the 2017/18 budget round (£6m), although the transition year has moved from 2018/19 to 2019/20.</p> <p>3.4 On the 23rd November 2016, the Chancellor of the Exchequer, Rt. Hon. Philip Hammond MP, announced the Autumn Statement 2016, confirming that the Government has scrapped its target to be in budget surplus by 2019/20, as</p>

	<p>measured by the Public Sector Net Borrowing figure. Although the deficit has been cut by almost two-thirds from its 2009/10 post war high of 10.1% of Gross Domestic Product (GDP) to 4.0% last year, borrowing and debt remain high and the Office for Budget Responsibility (OBR) has passed a judgment that the economic and fiscal outlook for the UK has deteriorated since the European Union (EU) referendum and subsequent 'Brexit'. The connotation of this means that public finances will no longer reach a surplus by 2019/20.</p>
3.5	<p>In terms of what the Autumn Statement provided regarding the specific impact on police and crime, the only key message gleaned was that 'Departmental spending plans set out in the 2015 Spending Review were to remain in place'. This provided a degree of clarity in that it corroborated the 'flat cash' funding expected for the 2017/18 financial year, assuming that locally determined precept increases are maximised and council tax bases grow consistently nationally. This 'flat cash' position was eventually confirmed upon receipt of the Final Police Funding settlement in February 2017 and therefore, the continuation of this approach forms the basis of estimated central government grant cuts from 2018/19 onwards.</p>
3.6	<p>Moving from the overall national funding available for policing to what is actually allocated to individual Commissioners, takes account of 'reallocations' (previously known as topslices), from Commissioner's budgets into other parts of HO policing responsibilities. In 2017/18, in addition to pre-existing reallocations (the most notable being for the transition from Airwave to the Emergency Services Network and also the Police Transformation Fund), a number of new streams were earmarked to fund additional schemes. Notably, these were for a) Her Majesty's Inspectorate of Constabulary's (HMIC) Police Effectiveness, Efficiency and Legitimacy (PEEL) inspections; b) 'gang master' and labour abuse; c) pre-charge bail; d) Commonwealth heads of government meeting; and e) forensic archive. Each has an impact upon the amount of funding awarded to Commissioners through the Police Funding Settlement into the future.</p>
3.7	<p>A consistent issue in the compilation of the MTFP is the uncertainty regarding the longevity, value and notification timing of Specific Grants from the HO, Welsh Government (WG) and the Ministry of Justice (MoJ). For planning purposes these are assumed to remain at the 2017/18 level moving forward</p>
3.8	<p>In a similar vein, the capital grant received from the HO remains a concern. The amount received in 2017/18 (£0.449m) does not even provide for a third of the annual fleet replacement programme and will only be 41% of the amount received as recently as 2014/15. A continuation of this reduction places a further significant burden on finite reserves and committed funds and also revenue budgets, as to maintain an appropriate capital programme moving forward, the revenue budget will need to contribute through a revenue contribution to capital or through new borrowing costs.</p>

3.9	<p>The 2017/18 budget setting round realised the opportunity to reinvest accelerated cashable efficiencies. By way of recap, the underlying ethos of the Staying Ahead Programme is to deliver service improvement through transformational change, to meet current and future demand and deliver efficiency savings (both cashable and non-cashable). Historically, the cashable efficiencies generated by the Staying Ahead Programme have been fully utilised in meeting current and future budgetary deficits as a result of the Government's austerity programme. However, with the exceptional success of the Staying Ahead Programme in improving the service (as independently verified by recent HMIC PEEL Inspections) and delivering cashable efficiency savings ahead of time; coupled with a 'less bad' funding settlement in 2016/17, enabled the Commissioner and the Force to be in a position to reinvest cashable efficiencies into known emerging pressures and service developments.</p>
3.10	<p>These pressures and service developments identified were consistent with those identified within local, regional and national priorities identified through such things as the Commissioner's Police and Crime Plan, the Strategic Policing Requirement and the Association of Police and Crime Commissioners (APCC)/National Police Chiefs' Council (NPCC)/Police and Crime Commissioners Treasurers' Society (PACCTS) submission regarding 'Future Levels of Funding for Police Services'.</p>
3.11	<p>The subsequent Force's original investment plan targeted:</p> <ul style="list-style-type: none"> a) Proactive Capabilities/Training; b) Hidden Crime/Protecting Vulnerable People/Modern Slavery; c) Tackling Cyber Criminality; d) Investment in People and Talent Management; e) Mental Health Training; f) First Point of Contact (FPOC) Triage Service; g) Welsh Language Standards Implementation/Maintenance; h) Public Confidence Research; and i) Street to Suite Custody Provision.
3.12	<p>Progress has been made in delivering a number of the above areas, whilst others have been revised to better utilise the available funding. However, the</p>

	<p>base costs of these investments have been maintained and future proofed within the MTFP, thereby maintaining the ongoing need to identify efficiency schemes to deliver savings from other conventional areas of policing demand; as potentially identified via the HMIC Value For Money (VFM) Profiles.</p>
3.13	<p>In addition to maintaining the above investments within the MTFP, since the conclusion of the 2017/18 budget setting round, a number of new service pressures and developments have materialised:</p>
3.14	<p><u>Supplementary impact of the Apprenticeship Levy</u></p> <p>The impact of the Apprenticeship Levy itself was accommodated within the 2017/18 budget, representing 0.5% (£0.369m) of the payroll costs. However, the collection of the Apprenticeship Levy is not devolved, but the subsequent distribution of funds is. Collected funds from Welsh employers will therefore be allocated to WG using the Barnett formula, and it is then WG who will determine how these funds should be allocated within Wales. Funding via the Barnett formula is not 'ring-fenced' and so the devolved administrations in the UK have freedom to decide where to award funds and which apprenticeship schemes to support. As such, not all funds raised will directly correlate to accessible funding for employer's training costs. The current situation is that the WG have not confirmed if and how Apprenticeship Levy monies will flow back to Welsh Forces in order to fund the delivery of the College of Policing's Policing Education Qualifications Framework (PEQF).</p>
3.15	<p>The PEQF is a mechanism to support the introduction of a national, standardised framework of recognised and accredited qualifications for policing in England and Wales. The PEQF will have initial implications for police officer ranks and thereafter will address specialist and policing-related staff roles – primarily those for which no equivalent framework exists outside policing and where a formal externally accredited qualification is considered necessary. The full cost of delivering the PEQF within Wales could be as much as £10m per year, with no certainty that this will be funded by Apprenticeship Levy monies from WG. As a rule of thumb, Gwent Police represents approximately 20% of Welsh Policing budgets, therefore, the supplementary impact of delivering the PEQF in Gwent could be as much as £2m. To this end, a £1m pressure (representing 50% of the estimated maximum cost) has been initially included in the MTFP.</p>
3.16	<p><u>Local Government Pension Scheme (LGPS)</u></p> <p>The Greater Gwent LGPS triennial review (based at the 31st March 2016, but completed and notified in February 2017) concluded that on the basis of the existing contribution rates raising by 1%¹ in 2018/19 and a further 1% in 2019/20, there is a 66% probability of Gwent Police (including the Office of the</p>

¹ The 2017/18 contribution rate is 15.8%.

	<p>Police and Crime Commissioner (OPCC)) being fully funded within the 23 year time horizon. Measures to increase the 66% likelihood (by the time of the next triennial review) were undertaken at the end of the 2016/17 financial year and the commencement of the 2017/18 financial year, with £2m respectively being paid into the LGPS in each financial year. The MTFP has now been updated to reflect the 1% per annum increase in pension contributions in 2018/19 and 2019/20 respectively, and a further lump sum payment in 2018/19. Moving forward, careful consideration should be given to maintaining further lump sum payments to increase the likelihood of achieving a fully funded position, especially in light of future operational policing pressures, as well as demographic changes impacting on the fund in the future.</p>
3.17	<p><u>Police Staff Council (PSC) Pay Claim 2017</u></p> <p>In July 2017, the PSC submitted a 5% pay claim for 2017. Currently, the MTFP assumes a 1.5% pay increase for Police Staff (similarly, Police Officer pay increase has been assumed at 1.5%). The difference between the 5% and 1.5% amounts to circa £0.700m per annum. At present, this has not been reflected in the MTFP but is noted.</p>
3.18	<p><u>Estate Strategy and Programme Fusion²</u></p> <p>The Commissioner commenced his review of the Estate Strategy in March 2017 and significant work has been undertaken since in shaping the vision and strategic objectives of the strategy. The next stage will be to assign indicative costs to the delivery of the strategy. Therefore, at the time of writing, the funding of this strategy, beyond ongoing maintenance of the existing estate and the delivery of a new headquarters has not been accounted for in the MTFP or the Reserves and Committed Funds Strategy.</p>
3.19	<p>In a similar vein, Gwent Police are currently confirming the revenue and capital investment requirements into Programme Fusion with South Wales Police. £5m of investment to 2019/20 has been reflected in the Reserves and Committed Funds Strategy, but this may be subject to change. As the Estate Strategy and Fusion costings are refined during the Autumn, the funding of the Strategy will be reflected in the MTFP and Reserves and Committed Funds Strategy presented to the December JAC and PCP.</p>
3.20	<p>Taking the above narrative into account, The current MTFP is shown at Appendix 1. The detailed assumptions, service pressures/developments and forecast efficiency savings and schemes which support the projections are reflected at Appendices 2, 3 and 4.</p>
3.21	<p>The Commissioner will note that the MTFP projects a recurring deficit <u>after</u></p>

² Programme Fusion is a collaborative venture between South Wales and Gwent Police, helping both forces cut crime, reduce costs, and provide an effective, efficient police service by ensuring officers and staff are using the latest technology, giving them the information they need, when they need it.

	<p>efficiencies in 2018/19 of £0.788m, before swinging into small surpluses in 2019/20 (£0.685m) and 2020/21 (£0.410). However, moving forward, the continuing impact of the CSR 2015 (and subsequently the impact of the next CSR and Efficiency Review) and the Police Funding Formula review, coupled with internal assumptions beyond this, present further funding pressures. It is forecast therefore that these will generate a recurring funding deficit of £2.749m by 2022/23, even after accounting for the successful delivery of £9.357m of future efficiency schemes.</p>
3.22	<p><u>MTFP – Funding Source Analysis</u></p> <p>Appendix 5 highlights the downward trajectory of Central Government Grant into Gwent, against the upward trajectory of precept funding raised through council tax. The Commissioner will note that in 2008/09, the Net Revenue Expenditure of the Police Authority was funded by £80.604m of Central Government Grant (71%) and precept of £33.697m (29%). Forecasting to 2022/23 (using the information from the latest MTFP at Appendix 1), the split is estimated to be £58.855m Central Government Grant (48%) and precept of £63.210m (52%). This highlights that a degree of the impact of austerity is being mitigated through local taxation. By far and away however, the largest mitigating factor to austerity is the Staying Ahead Programme and the success of the efficiency programme to date. The following narrative confirms this statement.</p>
3.23	<p><u>MTFP – Cumulative Deficits</u></p> <p>The graph at Appendix 6 aims to articulate the cumulative deficit that would have opened up if unavoidable expenditure increases since 2008/09 were left unchecked, i.e. if no Staying Ahead Programme existed and therefore no efficiency schemes and budget reductions were made to offset these expenditure increases and therefore provide a balanced budget year on year.</p>
3.24	<p>Starting from a balanced pre-austerity budget in 2008/09, whereby funding and expenditure match, if forecast expenditure increases year on year are mapped against actual and forecast funding allocations year on year, then a deficit of £61.420m would have opened up by 2022/23 (£183.485m minus £120.065m).</p>
3.25	<p>The important message in this graph is that overall funding will ‘flat line’ between 2008/09 and 2022/23; even after accounting for precept growth of 3.99% per annum between 2018/19 and 2022/23. In simple terms, the funding available for delivering police and crime services in Gwent in 2022/23 will be virtually the same in cash-terms as that seen in 2010/11. However, unavoidable expenditure increases, such as pay awards, inflation, changing crime types and increased safeguarding responsibilities have been (and will continue to be) accommodated year on year.</p>
3.26	<p>The Commissioner will note however, that between 2008/09 and 2017/18 expenditure did not run unchecked and efficiency schemes and budget</p>

	<p>reductions of £49.314m have been delivered, thereby ensuring balanced budgets year on year. In reality therefore, between 2008/09 and 2017/18 both the 'blue' Expenditure line and the 'red' Overall Funding line have 'met'. The outstanding deficit to 2022/23 is currently £12.106m (£61.420m gross deficit minus £49.314 of efficiency schemes delivered to date).</p>
3.27	<p>The major contributor to the delivery of the efficiency schemes, has been the reduction in establishment numbers since the start of austerity in 2010/11. Between March 2011 and June 2017:</p> <p>a) Actual Police Officer numbers have reduced from 1,493 whole time equivalents (wte) to 1,163 wte, a loss of 330 wte representing a 14% reduction; and</p> <p>b) Actual Police Staff numbers have reduced from 836 wte to 578 wte, a loss of 259 wte representing a 30% reduction.</p>
3.28	<p>Between March 2013³ and June 2017:</p> <p>a) Actual Police Community Support Officers (PCSO) numbers have reduced from 237 to 118, a loss of 119 wte representing a 50% reduction.</p>
3.29	<p>Over the same period, policing demand has become broader and changing crime types more complex to investigate. The Staying Ahead Programme is currently undertaking a detailed analysis of the changing demand faced by Gwent Police over the past three years. This analysis will influence the Programme moving forward and will be an invaluable reference point for local and national discussions regarding police and crime funding.</p>
3.30	<p>To this backdrop and based on consistent messaging from the public through engagement activities and the increasing complexity and breadth of policing demand, the Commissioner's precept strategy (as seen in 2017/18) may wish to address further investment into front-line policing numbers, either as part of maintaining flat cash funding levels or over and above the increase required to maintain flat cash funding.</p>
4.	<u>NEXT STEPS</u>
4.1	<p>This report signifies the commencement of the journey to the setting of the 2018/19 budget and ultimately the PCP meeting in January 2018, whereby they will be required to review the proposed precept and make a report to the Commissioner on the proposed precept (whether they veto the precept or not) by the 8th February 2018.</p>

³ March 2013 is used as reference point rather than March 2011, as Gwent Police were still in the process of recruiting the 101 WG funded PCSOs during 2011/12 and 2012/13.

4.2	The MTFP will be further refined during the year and will be scrutinised by Chief Officers, Strategy and Performance Board, JAC and the PCP regularly throughout the year.
5.	<p><u>FINANCIAL CONSIDERATIONS</u></p> <p>This is a major financial report with clear financial implications. These are fully articulated within the narrative and Appendices.</p>
6.	<p><u>PERSONNEL CONSIDERATIONS</u></p> <p>The majority of the policing and crime budget covers employees' salaries and employer's contributions. It follows that in the current situation, where Central Government Grant funding is reducing, the number of employees will inevitably fall. Addressing the situation in a sensible and timely manner as part of budget preparation demonstrates the actions of a good employer.</p>
7.	<p><u>LEGAL IMPLICATIONS</u></p> <p>Setting the budget requirement and precept are statutory responsibilities of the Commissioner.</p>
8.	<p><u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u></p> <p>8.1 This report has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group.</p> <p>8.2 In preparing this report, consideration has been given to the requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998.</p>
9.	<p><u>RISK</u></p> <p>9.1 The MTFP and associated budget setting process robustly identifies the financial implications of the strategic and operational risks faced by both organisations.</p> <p>9.2 Furthermore, a timely decision on the precept will minimise the risk of failing to achieve the statutory deadline.</p>
10.	<p><u>PUBLIC INTEREST</u></p> <p>This report will be placed on the website of both the Commissioner and the Police and Crime Panel.</p>

<p>11.</p>	<p><u>CONTACT OFFICER</u></p> <p>Darren Garwood-Pask, Chief Finance Officer to the Police and Crime Commissioner for Gwent.</p>
<p>12.</p>	<p><u>ANNEXES</u></p> <p>Appendix 1 – Medium Term Financial Projections 2018/19 to 2022/23. Appendix 2 – Assumptions 2018/19 to 2022/23. Appendix 3 – Service Pressures and Budget Developments 2018/19 to 2022/23. Appendix 4 – Staying Ahead 8 Savings Initiatives. Appendix 5 – Funding Source Analysis. Appendix 6 – Cumulative Deficits.</p>